

**BEAR RIVER HEAD START**

**Financial Statements**

**January 31, 2007 and 2006**

**(With Independent Auditors' Report Thereon)**

**Bear River Head Start  
Financial Statements  
Government Auditing Standards, OMB Circular A-133 and Other Required Reports  
Years Ended January 31, 2007 and 2006**

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**The Board of Directors  
Bear River Head Start**

**Independent Auditors' Report**

We have audited the accompanying statements of financial position of Bear River Head Start (BRHS) (a not-for-profit organization) as of January 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of BRHS. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Bear River Head Start as of January 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2007, on our consideration of the BRHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises BRHS. The supplementary information contained in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Schmitt, Griffith, Simon : C. P. C.*

March 29, 2007

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FINANCIAL POSITION  
January 31, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 33,219	\$ 114,343
Certificate of deposit	15,944	15,452
Grants receivable	318,202	344,723
Total current assets	<u>367,365</u>	<u>474,518</u>
Other assets:		
Deposits	2,819	2,819
Equipment, net	176,086	152,531
Total other assets	<u>178,905</u>	<u>155,350</u>
Total assets	<u>\$ 546,270</u>	<u>\$ 629,868</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 95,822	\$ 45,243
Salaries payable	110,860	195,938
Accrued payroll taxes/benefits	31,210	15,963
Retirement payable	90,546	177,814
Current portion of note payable	5,489	6,094
Total current liabilities	333,927	441,052
Note payable, less current portion	6,670	11,259
Total liabilities	<u>340,597</u>	<u>452,311</u>
Net assets:		
Unrestricted	205,673	177,557
Total liabilities and net assets	<u>\$ 546,270</u>	<u>\$ 629,868</u>

The accompanying notes are an integral  
part of these financial statements.

**BEAR RIVER HEAD START, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended January 31, 2007 and 2006**

<u>Changes in unrestricted net assets</u>	<u>2007</u>	<u>2006</u>
Unrestricted revenues		
Contracts and grants	\$ 4,167,591	\$ 4,158,373
In-kind contributions	522,251	707,258
Other	16,244	10,726
Total unrestricted revenues and support	<u>4,706,086</u>	<u>4,876,357</u>
Expenses:		
Program services	4,330,093	4,461,501
Administration expenses	347,877	405,820
Total expenses	<u>4,677,970</u>	<u>4,867,321</u>
Increase in unrestricted net assets	28,116	9,036
Net assets - beginning of year	<u>177,557</u>	<u>168,521</u>
Net assets - end of year	<u>\$ 205,673</u>	<u>\$ 177,557</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended January 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Salaries	\$ 2,358,752	\$ 2,307,437
Employee benefits	690,510	679,564
In-kind costs	522,251	707,258
Supplies and maintenance	175,362	212,213
Rent and utilities	359,215	335,969
Nutrition	123,124	125,920
Training	68,281	61,282
In-area travel	92,161	95,645
Professional services	104,242	120,714
Health	43,013	73,143
Parents	40,178	47,356
Depreciation	38,524	37,372
Insurance	46,150	44,215
Policy Council	9,726	7,781
Family service center	6,481	11,452
	<u>          </u>	<u>          </u>
Total expenses	\$ <u>4,677,970</u>	\$ <u>4,867,321</u>

(continued)

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended January 31, 2007

	Program Services					Other grants/ Corporate Funds	Administration	2007 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF				
Salaries	\$ 1,178,383	\$ 372,360	\$ 579,461	\$ 65,930	\$ 18,852	\$ 143,766	\$ 2,358,752	
Employee benefits	323,764	103,771	197,879	22,485	920	41,691	690,510	
Total personnel	1,502,147	476,131	777,340	88,415	19,772	185,457	3,049,262	
In-kind costs	313,782	168,363	36,064	-	-	4,042	522,251	
Supplies and maintenance	67,674	5,299	29,637	5,718	5,322	61,712	175,362	
Rent and utilities	269,845	16,186	44,198	4,046	1,405	23,535	359,215	
Nutrition	90,645	24,486	4,334	3,659	-	-	123,124	
Professional services	53,508	16	8,577	146	950	41,045	104,242	
In area travel	31,950	31,464	18,626	4,701	14	5,406	92,161	
Health	15,233	4,373	15,732	653	7,022	-	43,013	
Training	26,751	10,138	29,042	1,515	-	835	68,281	
Parents	21,947	8,590	6,558	1,283	1,800	-	40,178	
Depreciation	23,227	2,618	3,465	1,145	4,000	4,069	38,524	
Insurance	21,827	5,246	5,191	1,075	761	12,050	46,150	
Policy Council	-	-	-	-	-	9,726	9,726	
Family service center	3,133	2,767	581	-	-	-	6,481	
Total expenses	\$ 2,441,669	\$ 755,677	\$ 979,345	\$ 112,356	\$ 41,046	\$ 347,877	\$ 4,677,970	
							(continued)	

(continued)

The accompanying notes are an integral  
part of these financial statements.



BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended January 31, 2006

	Program Services					Other grants/		2006 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF	Corporate Funds	Administration		
Salaries	\$ 1,152,031	\$ 365,659	\$ 542,374	\$ 60,064	\$ 12,461	\$ 174,848	\$	2,307,437
Employee benefits	322,338	112,093	160,322	18,610	6,753	59,448		679,564
Total personnel	1,474,369	477,752	702,696	78,674	19,214	234,296		2,987,001
In-kind costs	333,591	354,563	14,413	-	-	4,691		707,258
Supplies and maintenance	83,633	2,117	36,796	4,469	16,439	68,759		212,213
Rent and utilities	259,043	8,149	39,750	2,008	4,467	22,552		335,969
Nutrition	89,378	26,146	6,524	3,872	-	-		125,920
Training	26,182	10,020	21,338	1,547	419	1,776		61,282
In-area travel	38,123	29,313	19,435	4,493	6	4,275		95,645
Professional services	68,484	317	3,513	1,692	423	46,285		120,714
Health	40,394	6,528	21,520	967	3,734	-		73,143
Parents	27,893	8,500	7,662	1,259	2,042	-		47,356
Depreciation	22,533	2,540	3,362	1,111	4,000	3,826		37,372
Insurance	19,161	6,445	5,367	1,366	297	11,579		44,215
Policy Council	-	-	-	-	-	7,781		7,781
Family service center	7,587	2,002	1,856	-	7	-		11,452
Total expenses	\$ 2,490,371	\$ 934,392	\$ 884,232	\$ 101,458	\$ 51,048	\$ 405,820	\$	4,867,321

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended January 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ 28,116	\$ 9,036
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	38,524	37,372
(Increase) decrease in:		
Grants receivable	26,521	78,221
Prepaid expenses	-	2,290
Increase (decrease) in:		
Accounts payable	50,579	(2,044)
Interest payable	-	(925)
Salaries payable	(85,078)	9,041
Accrued payroll taxes	15,247	(14,402)
Retirement payable	(87,268)	(85,314)
Other liabilities	-	(68)
Net cash provided (used) by operating activities	<u>(13,359)</u>	<u>33,207</u>
<u>Cash flows from investing activities:</u>		
Increase in certificate of deposit	(492)	(478)
Purchase of equipment	<u>(62,079)</u>	<u>(45,035)</u>
Net cash used in investing activities	<u>(62,571)</u>	<u>(45,513)</u>
<u>Cash flows from financing activities:</u>		
Payments on promissory note	<u>(5,194)</u>	<u>(4,896)</u>
Net cash used in financing activities	<u>(5,194)</u>	<u>(4,896)</u>
Net increase (decrease) in cash	(81,124)	(17,202)
Cash and cash equivalents, beginning of year	<u>114,343</u>	<u>131,545</u>
Cash and cash equivalents, end of year	<u>\$ 33,219</u>	<u>\$ 114,343</u>
 Cash paid for interest	 <u>\$ 990</u>	 <u>\$ 1,314</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization

Bear River Head Start, Inc., (BRHS) is a non-profit corporation, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Further, it has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. The primary business activity of BRHS is to operate a Head Start program in Northern Utah and in Southeastern Idaho. BRHS is substantially funded by federal grants, receives a limited amount of State and local grants, and operates with only a minimal amount of corporate funds.

The program objectives of BRHS are to provide comprehensive health, education, nutrition, social and other services primarily to economically disadvantaged infants and preschool children and their families, and to involve parents in activities with their children so that the children will attain overall social competence. Parental participation in various decision making processes, related to the operations, is a key factor in the success of the program. Collaborative arrangements with other community agencies are actively established and are a second key factor in the success of the program, through which these objectives are met.

Additional objectives are to establish and operate any program which may improve the quality of life by reducing personal hardship, mobilizing personal resources, and combating community deterioration; to coordinate and integrate the efforts and resources of communities for remedying deficiencies and reducing impoverishment; to promote education and literacy, to improve employability, and to promote health through education and through integration with community resources; and to promote, where necessary, new solutions for those problems beyond resolution by existing resources.

Financial Statement Presentation

BRHS's financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Company is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, BRHS is required to present a statement of cash flows.

Cash

For purposes of the statement of cash flows, cash includes only deposits with an original maturity of less than three months.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Receivables

BRHS receivables arise primarily from reimbursable grants with government entities. A receivable is recognized, up to the grant amount, when allowable expenses are incurred. Based on past experience, an allowance for uncollectible amounts is not considered necessary.

Contributions

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support, if any, is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. No contributions have been recorded as restricted assets.

Donated Materials and Services

Donated materials and equipment, if any, are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During 2007 and 2006, BRHS recognized \$522,251 and \$707,258 respectively for professional services and donated goods.

BRHS receives a substantial amount of services donated by parents or other non-specialized volunteers in carrying out BRHS' programs. During fiscal years 2007 and 2006, BRHS received approximately 58,000 and 79,000 hours of donated services by volunteers with an estimated fair value of \$607,139 and \$785,699 respectively. No amounts have been reflected in the financial statements for these donated services. Federal matching requirements are satisfied through the donated services of volunteers.

Equipment

Equipment is stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Equipment is defined as tangible personal property with an acquisition cost of \$5,000 or more per unit, a useful life of more than one year and BRHS has or expects to receive title to the asset. Other assets purchased with federal funds are expensed as purchased if BRHS determines that it is not probable that title to such assets will be transferred to BRHS.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Equipment (Continued)

Depreciation is provided over the estimated useful lives (five to ten years) of the equipment using the straight-line method. Upon disposition of an asset, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Compensated Absences

Employees earn leave days each year based on length of service for use as vacation and personal leave. Vacation leave is earned after one year of full time employment or on a pro-rata basis for part-time employment. Vacation leave is forfeited at the end of the fiscal year. Therefore, no accrual has been made for vacation leave. Personal leave accrues at one day per month until ten days are earned. Unused personal leave is paid out at the end of the fiscal year at one-half of the employee's daily rate. An accrual for the personal leave to be paid out is included in accrued salaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Custodial Credit Risk

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the organization's deposits may not be recovered. The organization's policy is to keep all cash account in federally insured bank institutions. On January 31, 2007 and 2006, BRHS had demand deposits in excess of federally insured limits in the amounts of \$0 and \$37,437, respectively.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The organization's policy for all investments is authorized by the Board. The Organization currently holds one certificate of deposit as outlined below.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 2 – Certificate of Deposit

At January 31, 2007 and 2006, BRHS owned a certificate of deposit bearing interest at 5.3% and 3.17%, respectively. The Certificate matures in January 2009.

Note 3 – Grants Receivable

At January 31, 2007 and 2006, grants receivable, which are unsecured but considered fully collectible, consisted of the following:

	<u>2007</u>	<u>2006</u>
U.S. Department of Agriculture	\$ 12,704	\$ 12,160
U.S. Department of Health and Human Services	274,305	298,361
Idaho Head Start Association	24,392	31,006
Other grant receivables	<u>6,801</u>	<u>3,196</u>
Total	\$ <u>318,202</u>	\$ <u>344,723</u>

Note 4 – Equipment

At January 31, 2007 and 2006, equipment consisted of the following:

	<u>2007</u>	<u>2006</u>
Portable classroom	\$ 40,000	\$ 40,000
Equipment	207,414	145,335
Vehicles	<u>251,316</u>	<u>251,316</u>
Total equipment	498,730	436,651
Less accumulated depreciation	<u>(322,644)</u>	<u>(284,120)</u>
Equipment, net	\$ <u>176,086</u>	\$ <u>152,531</u>

The equipment and vehicles were purchased with federal funds. However, BRHS expects to receive title to these assets at the end of their useful lives or upon disposal.

At January 31, 2007 and 2006, BRHS also had purchased fixed assets with federal funds and had fiduciary responsibility for those assets. The following is a summary of activity of these fiduciary assets to which BRHS does not expect to receive title.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 4 – Equipment, continued

	Balance 2/01/06	<u>Additions</u>	<u>Deletions</u>	Balance 1/31/07
Land	\$ 23,784	-	-	\$ 23,784
Buildings	142,401	-	-	142,401
Portable Classrooms	433,204	-	-	433,204
Total	\$ <u>599,389</u>	<u>-</u>	<u>-</u>	\$ <u>599,389</u>

Note 6 – Note Payable

Note payable at year-end consisted of the following:

	<u>2007</u>	<u>2006</u>
Due to the Lewiston State Bank, collateralized by a portable classroom in Preston, Idaho, payable in annual installments of \$6,184 including interest at 6.0%, final payment due on March 1, 2008.	\$ 12,159	\$ 17,353
Less current portion	<u>(5,489)</u>	<u>(6,094)</u>
Long-term portion	\$ <u>6,670</u>	\$ <u>11,259</u>

The estimated principal portions due on the note payable for the next five years are as follows:

Year Ending January 31,	<u>Amount</u>
2008	\$ 5,489
2009	<u>6,670</u>
Total	\$ <u>12,159</u>

Note 7 – Defined Contribution Plan

BRHS participates in a 403(b) retirement plan. Employees are immediately eligible to participate in the plan. The contributions are deposited into individual accounts. Each employee's individual account is available for withdrawal in its entirety at termination or death. The plan does not require matching funds from BRHS and BRHS has not made any matching contributions to the plan.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2007 and 2006

Note 7 – Defined Contribution Plan, continued

BRHS also participates in a Simplified Employee Pension Plan (SEP) that covers all employees who have reached the age of 18 and who had been an employee for 13 months of the immediately preceding 5 plan years. This plan allows BRHS to contribute up to 15% of the employees' salary on an annual basis, subject to Internal Revenue Service regulations. Contributions to the SEP plan for fiscal years 2007 and 2006 were \$90,546 and \$177,814 respectively.

Note 8 – Operating Leases

In 2003, BRHS entered into a non-cancelable lease agreement for office space for Early Head Start, administration and child care connection. The lease commenced on November 1, 2003 and requires monthly rent payments ranging from \$5,450 to \$6,164 plus a proportionate share of utility charges based on square footage. A new lease commenced on August 1, 2004 for PHS admin space and requires monthly payments ranging from \$3,198 to \$3,600 plus a proportionate share of utility charges based on square footage. The lease expires October 31, 2009. On February 1, 2005 BRHS entered a lease for classroom space in Logan that requires monthly payments ranging from \$14,713 to \$16,183. The lease expires January 31, 2015. On October 1, 2005 BRHS entered into a lease for space in Preston, Id with monthly payments of \$350 through January 31, 2008. Rent expense for fiscal years 2007 and 2006 was \$294,590 and \$277,752, respectively.

Future minimum rental payments under the non-cancelable operating lease (excluding the utility charge) for each of the next eight years are listed below.

<u>Year Ending</u> <u>January 31,</u>	<u>Amount</u>
2008	\$ 295,873
2009	274,279
2010	208,949
2011	194,207
2012	194,207
2013	194,207
2014	194,207
2015	<u>194,207</u>
Total	\$ <u>1,750,136</u>



SCHEDULE 1

**BEAR RIVER HEAD START, INC.**  
**STATEMENTS OF ACTIVITIES - GRANT BASIS**  
**For the Years Ended January 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Support:		
Contracts and grants	\$ 4,167,591	\$ 4,158,373
In-kind contributions	1,129,390	1,492,957
Interest income	<u>250</u>	<u>250</u>
Total support	<u>5,297,231</u>	<u>5,651,580</u>
Expenses:		
Program services:		
Utah Head Start	2,691,901	2,819,919
Idaho Head Start	912,520	1,051,579
Early Head Start	1,212,178	1,204,796
Idaho TANF	111,211	100,347
Other grants	<u>25,613</u>	<u>72,945</u>
Total program services	4,953,423	5,249,586
Administrative expenses	<u>343,808</u>	<u>401,994</u>
Total expenses	<u>5,297,231</u>	<u>5,651,580</u>
Change in net assets	<u>-</u>	<u>-</u>
Reconciliation to GAAP basis:		
Corporate interest income	708	776
Corporate income	15,286	9,700
Corporate expenses	(11,433)	(9,103)
Non-GAAP in-kind contributions	(607,139)	(785,699)
Non-GAAP in-kind costs	607,139	785,699
Equipment	62,079	45,035
Depreciation	<u>(38,524)</u>	<u>(37,372)</u>
Total reconciling items	<u>28,116</u>	<u>9,036</u>
Increase (decrease) in net assets	<u>\$ 28,116</u>	<u>\$ 9,036</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**The Board of Directors  
Bear River Head Start, Inc., Inc.**

We have audited the basic financial statements of Bear River Head Start, Inc., Inc. (the BRHS), as of and for the years ended January 31, 2007 and 2006, and have issued our report thereon dated March 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered BRHS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BRHS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Directors, is not intended to be, and should not be used by anyone other than these specified parties.

*Schmitt, Truffette, Smith : C.A.C.*

March 29, 2007

**Board of Directors**  
**Bear River Head Start, Inc.**

## Compliance

We have audited the compliance of Bear River Head Start, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended January 31, 2007. Bear River Head Start, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bear River Head Start, Inc.'s management. Our responsibility is to express an opinion on Bear River Head Start, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bear River Head Start, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bear River Head Start, Inc.'s compliance with those requirements.

In our opinion, Bear River Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended January 31, 2007.

## Internal Control Over Compliance

The management of Bear River Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bear River Head Start, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Bear River Head Start, Inc. as of and for the year ended January 31, 2007 and 2006, and have issued our report thereon dated March 29, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Bear River Head Start, Inc. basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Bear River Head Start, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Schmid, Triggler, Smith : C. P. C.*

March 29, 2007

BEAR RIVER HEAD START, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended January 31, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award/ Contract Number</u>	<u>Award</u>	<u>Disbursements/ Expenses</u>
<u>U.S. Dept. of Health and Human Services (HHS)</u>				
Direct Program:				
2006-2007 Head Start	93.600	08CH0056/34	\$ 3,244,746	\$ 3,244,746
2006-2007 Head Start	93.600	10CH0174/04	677,898	677,898
Passed through the Idaho Head Start Association:				
Temporary Assistance for Needy Families	93.558	07-9012	105,443	60,666
	93.558	06-9012	105,443	<u>50,545</u>
Total Department of Health and Human Services				<u>4,033,855</u>
<u>U.S. Dept. of Agriculture</u>				
Passed through Utah State Office of Education				
Child Care Food Program	10.558	F-1	78,566	106,379
Child Care Food Program	10.558	KG	1,348	1,348
Passed through the Idaho State Department of Education Child Nutrition Section				
Child Care Food Program	10.558	4853	27,813	<u>27,813</u>
Total Department of Agriculture				<u>135,540</u>
Total Federal Awards				<u>\$ 4,169,395</u>

BEAR RIVER HEAD START, INC.  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended January 31, 2007

Note 1 – Purpose of the Schedule

The Schedule of Expenditures of Federal Awards (the Schedule) is a supplementary schedule to the basic financial statements. The Schedule is required by the *U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 – Significant Accounting Policies

Basis of Accounting

The information in the Schedule is presented in accordance with OMB Circular A-133. The Schedule is prepared using the same accounting policies and basis of accounting as the basic financial statements.

CFDA Numbers

OMB Circular A-133 requires the Schedule to show the total expenditures for each of the entity's federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Each program included in the CFDA is assigned a five-digit program identification number (CFDA number).

Major Programs

OMB Circular A-133 establishes a risk-based approach to determining which federal programs are major programs. The federal awards tested as major programs were those with a CFDA number of 93.600.

Matching Costs

The Schedule does not include matching expenditures.

**Bear River Head Start.  
Schedule of Prior Audit Findings and Questioned Costs  
Year Ended January 31, 2007**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No prior audit findings are required to be reported in the current year.



**Bear River Head Start  
Schedule of Findings and Questioned Costs  
Year Ended January 31, 2007**

**SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Bear River Head Start, Inc.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit, as required to be reported in accordance with government auditing standards.
4. There were no reportable conditions disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Bear River Head Start, Inc. expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Bear River Head Start, Inc. reported in the schedule of prior audit findings and questioned costs.
7. The programs tested as major federal programs were as follows:

<u>Name</u>	<u>CFDA No.</u>
Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Bear River Head Start, Inc. was determined to be a low risk auditee.

**Bear River Head Start  
Schedule of Findings and Questioned Costs, Continued  
Year Ended January 31, 2007**

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD  
PROGRAMS AUDIT:**

There were no current year findings.

March 29, 2007

**To the Board of Directors  
Bear River Head Start, Inc.**

We have audited the financial statements of Bear River Head Start, Inc. for the year ended January 31, 2007 and have issued our report thereon dated March 29, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated December 6, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Bear River Head Start, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Bear River Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Bear River Head Start, Inc.'s compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Bear River Head Start, Inc.'s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Bear River Head Start, Inc.'s compliance with those requirements.



**Bear River Head Start, Inc.**  
**Board of Directors, Continued**  
**March 29, 2007**  
**Page 2**

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bear River Head Start, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (this is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Organization, either individually or in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Bear River Head Start, Inc.  
Board of Directors, Continued  
March 29, 2007  
Page 3

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Directors and management of Bear River Head Start, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.

A handwritten signature in dark ink, appearing to read "Sherman H. Smith", with a stylized flourish at the end.

Sherman H. Smith, CPA